

AMENDED IN SENATE MAY 30, 2002
AMENDED IN ASSEMBLY APRIL 8, 2002
AMENDED IN ASSEMBLY APRIL 1, 2002

CALIFORNIA LEGISLATURE—2001–02 REGULAR SESSION

ASSEMBLY BILL

No. 1948

**Introduced by Assembly Member Kelley
(Principal coauthors: Assembly Members Aanestad and
Dickerson)**

February 14, 2002

An act to amend Section 56381 of the Government Code, relating to local agency formation commissions.

LEGISLATIVE COUNSEL'S DIGEST

AB 1948, as amended, Kelley. Local agency formation commissions.

Existing law prescribes the apportionment for the net operating expenses of the local agency formation commission among the county and the cities and special districts within the county.

This bill would revise the method of calculating independent special district revenues in order to determine independent special districts' apportionments of the net operating expenses of a commission, and *would* provide that no independent special district shall be apportioned a share of more than 50% of the total independent special districts' share of the commission's operational costs. The bill would provide, with respect to a district formed under the Local Health Care District Law, that the district may not be apportioned any share until the fiscal year following positive net revenue, as defined, or, if the district has filed for

and is operating under federal bankruptcy, until the fiscal year after its discharge from bankruptcy.

Vote: majority. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. (a) The Legislature finds and declares all of the
2 following:

3 (1) Health care districts operating hospitals throughout
4 California are under severe financial assault.

5 (2) District hospitals provide a substantial proportion of health
6 care services to low-income residents of the state, to minority
7 populations, and to the uninsured. District hospitals serve a
8 disproportionately large number of Medicare and Medi-Cal
9 beneficiaries, as compared to nonpublic hospitals.

10 (3) Health care districts constitute the single largest provider of
11 basic and emergency health services in rural California. In some
12 communities, health care districts are the only providers of health
13 care services.

14 (4) Health care districts operate 35 of California's 71 rural
15 hospitals. In addition, districts operate some 15 health care clinics
16 and skilled nursing facilities. Health care district facilities provide
17 inpatient care to more than 200,000 Californians and support more
18 than 1,800,000 outpatient visits annually.

19 (5) Reimbursement for health care services from Medi-Cal,
20 Medicare, and health maintenance organizations currently covers
21 less than one-half of the actual cost of hospital services and these
22 reimbursements are declining.

23 (6) The cost of recruiting and retaining health care workers,
24 especially nursing staff, has increased sharply in recent years.

25 (7) The average district hospital in California operates with a
26 net annual operating deficit of one million five hundred thousand
27 dollars (\$1,500,000).

28 (8) As a group, California's district hospitals lost a total in
29 excess of seventy million dollars (\$70,000,000) on operations in
30 the 2000–01 fiscal year. In the past five years, five district hospitals
31 have been forced to declare bankruptcy, and one has closed
32 permanently.



(9) Recently imposed government mandates including, but not limited to, seismic safety, data reporting, Local Agency Formation Commission (LAFCO) assessments, and the federal Health Insurance Portability and Accountability Act of 1996 have put major financial strains on district hospitals. More of these facilities may soon be forced into bankruptcy and closure.

(b) It is the intent of the Legislature to enact legislation that would more fairly allocate the cost of operating LAFCOs to be borne by health care districts, which are seldom involved in changes of organization, or other activities which require action or oversight by LAFCOs.

SEC. 2. Section 56381 of the Government Code is amended to read:

56381. (a) The commission shall adopt annually, following noticed public hearings, a proposed budget by May 1 and final budget by June 15. At a minimum, the proposed and final budget shall be equal to the budget adopted for the previous fiscal year unless the commission finds that reduced staffing or program costs will nevertheless allow the commission to fulfill the purposes and programs of this chapter. The commission shall transmit its proposed and final budgets to the board of supervisors; to each city; to the clerk and chair of the city selection committee, if any, established in each county pursuant to Article 11 (commencing with Section 50270) of Chapter 1 of Part 1 of Division 1; to each independent special district; and to the clerk and chair of the independent special district selection committee, if any, established pursuant to Section 56332.

(b) After public hearings, consideration of comments, and adoption of a final budget by the commission pursuant to subdivision (a), the auditor shall apportion the net operating expenses of a commission in the following manner:

(1) (A) In counties in which there is city and independent special district representation on the commission, the county, cities, and independent special districts shall each provide a one-third share of the commission's operational costs.

(B) The cities' share shall be apportioned in proportion to each city's total revenues, as reported in the most recent edition of the Cities Annual Report published by the Controller, as a percentage of the combined city revenues within a county, or by an alternative

1 method approved by a majority of cities representing a majority of
2 the combined cities' populations.

3 (C) The independent special districts' share shall be
4 apportioned in proportion to each district's net operating revenues
5 as a percentage of the combined net operating district revenues
6 within a county. ~~Except as provided in subparagraph (E), an~~
7 ~~independent special district's net operating revenue shall be~~
8 ~~calculated based on the district's revenues for general purpose~~
9 ~~transactions, as reported in the most recent edition of the~~
10 ~~"Financial Transactions Concerning Special Districts" published~~
11 ~~by the Controller, less any revenues specified in subparagraph (D).~~
12 ~~apportioned in proportion to each district's total revenues as a~~
13 ~~percentage of the combined total district revenues within a county.~~
14 ~~Except as provided in subparagraph (D), an independent special~~
15 ~~district's total revenue shall be calculated based on total revenues~~
16 ~~for general purpose transactions for nonenterprise activities and~~
17 ~~total operating and nonoperating revenues for enterprise~~
18 ~~activities, as reported in the most recent edition of the "Special~~
19 ~~Districts Annual Report" published by the Controller, less any~~
20 ~~revenues received by a district from other governmental agencies.~~
21 ~~It is the intent of the Legislature that no single district or class or~~
22 ~~type of district shall bear a disproportionate amount of the~~
23 ~~independent special district share of costs.~~ For the purposes of
24 fulfilling the requirement of this section, a multicounty
25 independent special district shall be required to pay its
26 apportionment in its principal county.

27 ~~(D) The following revenues shall be deducted from a district's~~
28 ~~revenues for general purpose transactions pursuant to~~
29 ~~subparagraph (C):~~

30 ~~(i) Proceeds from the sale of bonds, and federal and state grants~~
31 ~~and loans.~~

32 ~~(ii) Assessments, fees, and charges collected for the purpose of~~
33 ~~making loan or debt service payments.~~

34 ~~(E)~~

35 (D) (i) For purposes of apportioning costs to a health care
36 district formed pursuant to Division 23 (commencing with Section
37 32000) of the Health and Safety Code, a health care district's share,
38 except as provided in clauses (i) and (ii), shall be apportioned in
39 proportion to each district's net revenue from operations as
40 reported on line 205 in the most recent edition of the "Annual

~~Hospital Financial and Utilization Disclosure Report~~” *hospital financial disclosure report form* published by the Office of Statewide Health Planning and Development, as a percentage of the combined independent special districts net operating revenues within a county.

(ii) A health care district for which net revenue from operations is a negative number may not be apportioned any share of the commission’s operational costs until the fiscal year following positive net revenue from operations, as reported ~~on line 205~~ in the most recent edition of the ~~“Annual Hospital Financial and Utilization Disclosure Report”~~ *hospital financial disclosure report form* published by the Office of Statewide Health Planning and Development.

(iii) A health care district that has filed and is operating under public entity bankruptcy pursuant to federal bankruptcy law, shall not be apportioned any share of the commission’s operational costs until the fiscal year following its discharge from bankruptcy.

~~(F)–~~

(E) Notwithstanding the requirements of subparagraph (C), the independent special districts’ share may be apportioned by an alternative method approved by a majority of the districts, representing a majority of the combined populations.

~~(G)–~~

(F) Notwithstanding the requirements of subparagraph (C), no independent special district shall be apportioned a share of more than 50 percent of the total independent special districts’ share of the commission’s operational costs. *In those counties in which a district’s share is limited to 50 percent of the total independent special districts’ share of the commission’s operational costs, the share of the remaining districts shall be increased on a proportional basis so that the total amount for all districts equals the share apportioned by the auditor to independent special districts.*

(2) In counties in which there is no independent special district representation on the commission, the county and its cities shall each provide a one-half share of the commission’s operational costs. The cities’ share shall be apportioned in the manner described in paragraph (1).

(3) In counties in which there are no cities, the county and its special districts shall each provide a one-half share of the

1 commission's operational costs. The independent special districts'
2 share shall be apportioned in the manner described for cities'
3 apportionment in paragraph (1). If there is no independent special
4 district representation on the commission, the county shall pay all
5 of the commission's operational costs.

6 (4) Instead of determining apportionment pursuant to
7 paragraph (1), (2), or (3), any alternative method of apportionment
8 of the net operating expenses of the commission may be used if
9 approved by a majority vote of each of the following: the board of
10 supervisors; a majority of the cities representing a majority of the
11 total population of cities in the county; and the independent special
12 districts representing a majority of the combined total population
13 of independent special districts in the county.

14 (c) After apportioning the costs as required in subdivision (b),
15 the auditor shall request payment from the board of supervisors
16 and from each city and each independent special district no later
17 than July 1 of each year for the amount that entity owes and the
18 actual administrative costs incurred by the auditor in apportioning
19 costs and requesting payment from each entity. If the county, a city,
20 or an independent special district does not remit its required
21 payment within 60 days, the commission may determine an
22 appropriate method of collecting the required payment, including
23 a request to the auditor to collect an equivalent amount from the
24 property tax, or any fee or eligible revenue owed to the county,
25 city, or district. The auditor shall provide written notice to the
26 county, city, or district prior to appropriating a share of the
27 property tax or other revenue to the commission for the payment
28 due the commission pursuant to this section. Any expenses
29 incurred by the commission or the auditor in collecting late
30 payments or successfully challenging nonpayment shall be added
31 to the payment owed to the commission. Between the beginning
32 of the fiscal year and the time the auditor receives payment from
33 each affected city and district, the board of supervisors shall
34 transmit funds to the commission sufficient to cover the first two
35 months of the commission's operating expenses as specified by the
36 commission. When the city and district payments are received by
37 the commission, the county's portion of the commission's annual
38 operating expenses shall be credited with funds already received
39 from the county. If, at the end of the fiscal year, the commission
40 has funds in excess of what it needs, the commission may retain

1 those funds and calculate them into the following fiscal year's
2 budget. If, during the fiscal year, the commission is without
3 adequate funds to operate, the board of supervisors may loan the
4 commission funds and recover those funds in the commission's
5 budget for the following fiscal year.

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